

**REPORT OF THE AUDIT OF THE
FRANKLIN COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2012**

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Members of the Board
Franklin County School District
Frankfort, Kentucky

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Franklin County School District, Frankfort, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Franklin County School District, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

Accounting principles generally accepted in the United States of America require that the management's discussion 3 through 6 and analysis and budgetary comparison information on pages 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and

INDEPENDENT AUDITOR'S REPORT

(Continued)

other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin County School District's basic financial statements as a whole. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Franklin County School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company", written in dark ink.

Ross and Company, PLLC
November 13, 2012

Franklin County School District
Frankfort, Kentucky
Management's Discussion and Analysis (MD & A)
Year Ended June 2012

As management of the Franklin County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- In May 2012, the District issued \$10,050,000 in School Building Revenue Bonds, Series 2012 for the purpose of school building renovation and construction. This issue is supported by the Kentucky School Facilities Construction Commission for twenty-four percent of the debt service with the District responsible for the remaining. The interest rates yields in the bond series issued range from .8% to 3.65% with a net interest cost of 3.85%
- The General Fund had \$45,533,848 in revenue, which consisted primarily of State Program revenues (SEEK and on-behalf payments), property taxes, utility taxes, and motor vehicle taxes. There were \$45,854,556 in general fund expenditures and \$108,094 in inter-fund transfers
- The District continues to participate in the Kentucky Inter-Local School Transportation Association (KISTA) equipment lease revenue bonds program for the purpose of acquiring replacement buses. The District acquired five buses under this program during the 2011-2012 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 7 and 8 of this report.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2012
(Continued)

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 and 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18-32 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$29.7 million as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2011 and June 30, 2012

A comparison of June 30, 2011 and June 30, 2012 government wide net assets are as follows:

	2011	2012
Current Assets	\$11,793,638	\$20,228,845
Non-current Assets	79,957,846	80,106,385
Total Assets	\$91,751,484	\$100,335,230
Current Liabilities	\$7,637,393	\$9,124,778
Non-current Liabilities	54,256,552	61,485,283
Total Liabilities	\$61,893,945	\$70,610,061
Net Assets		
Investment in capital assets (net of debt)	\$24,607,846	\$15,651,586
Restricted	4,342,241	12,425,795
Unrestricted	907,452	1,647,788
Total Net Assets	\$29,857,539	\$29,725,169

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2012
(Continued)

The following table presents a District wide comparison of changes in net assets and summary of revenues and expenses for the fiscal years ended June 30, 2011 and June 30, 2012.

	2011	2012
Revenues:		
Program Revenues		
Fees for services	\$ 2,060,379	\$ 2,179,606
Federal/state grants	9,912,698	8,761,711
General Revenues		
Property taxes	16,317,712	16,526,636
Motor Vehicle Tax	1,524,987	1,560,408
Utility taxes	3,014,731	2,921,426
Interest earnings	257,029	56,858
State grants	25,322,862	26,893,534
Other	3,643,021	3,115,893
Total revenues	62,053,419	62,016,072
Expenses:		
Instruction	32,295,713	33,521,476
Student support services	2,273,297	2,871,800
Instructional support	3,237,441	3,421,345
District administration	372,262	1,326,034
School administration	3,678,846	3,705,105
Business support	577,595	627,108
Plant operation	4,605,639	538,303
Student transportation	4,012,181	4,181,208
Community service	474,349	557,574
Facility Acquisition & Const.	-	640,295
Debt service - interest	2,091,175	2,472,240
Food service	2,866,447	2,930,970
Daycare	1,131,148	1,283,239
Community education	65,215	-
Other	60,060	82,394
Total expenditures	57,741,368	58,159,091
Change in Net Assets	\$ 4,312,051	\$ 3,856,981

On-behalf payment amounts are included in the above figures. On-behalf payments, as defined by KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement benefits, debt service, and administration fees.

General Fund Budgetary Highlights

- The District's total general fund revenues for the fiscal year ended June 30, 2012, excluding the inter-fund transfers and on behalf payments were \$36,844,916.

FRANKLIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2012
(Continued)

- The total cost of all general fund programs and services excluding the inter-fund transfers was \$45,854,556 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$345,396 more than budgeted by 0.83% favorable percentage points.
- General fund budget expenditures to actual varied from line item to line item with the ending actual expenditures being \$4,218,042 less than budget by 10.16% favorable percentage points.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2010-2011 with an approximate 3.4% contingency. The District has adopted a budget for 2011-2012 with an approximate 6.6 % contingency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012 fiscal year, the District had invested \$119,814,848 in a broad range of capital assets, including equipment, buses, buildings, and land. Depreciation expense for the year was \$3,466,844.

District Capital Assets

(net of Depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,540,884	\$ -	\$ 1,540,884
Land Improvements	1,355,952	-	1,355,952
Buildings & Improvements	70,821,582	-	70,821,582
Equipment	1,516,949	474,003	1,990,952
Vehicles	2,210,491	-	2,210,491
Construction in Progress	2,186,523	-	2,186,523
	<u>\$ 79,632,381</u>	<u>\$ 474,003</u>	<u>\$ 80,106,384</u>

Long-Term Debt

The District had \$64,454,799 in bonds/leases outstanding at year-end. The District retired \$3,143,526 of bonded debt during fiscal year 2011.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director

FRANKLIN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

For the fiscal year ending June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Franklin County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Franklin County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Franklin County School District Finance Corporation – The Franklin County School District resolved to authorize the establishment of the Franklin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The board members of the Franklin County School District also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements:

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting:

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Construction Fund – The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Proprietary Fund Type

Food Service - The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of USDA commodities on the financial statements, except as required by the Single Audit Act as presented on the Schedule of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Type (Continued)

Expenditures of Federal Awards. The aggregations of non-major funds are After School Program Fund and Community Education Fund.

After School Care - The After School Care Fund is used to account for daycare activities. Daycare service fees are the funds principal operating revenue. This fund is treated as a non-major fund of the District.

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, "available" means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

On the government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Budget

The District is required by state law to adopt a budget annually. The budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the District approves the budget, it can be amended. Budget appropriations lapse at year-end.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. At June 30, 2012, the District did not have non-spendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$10,309,410 as restricted capital projects in the Construction Fund for future construction. Also at June 30, 2012 the District had \$209,625 restricted in the Building Fund and \$191,758 restricted in Capital Outlay Fund as SFCC Escrow. The District restricted \$129,934 for Sick Leave.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$180,907 for Site Based CWFD in the General Fund June 30, 2012.

Assigned fund balances are those amounts that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. Assigned fund balances also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for specific purposes. The district had \$492,333 assigned in the General Fund and \$71,023 the Construction Fund at June 30, 2012.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for a purpose in which both restricted and unrestricted fund balances are available. Also, the District has established the order of assigned, committed, and restricted funds when an expenditure is incurred for purposes in which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2012, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$19,107,189 and the combined bank balances totaled \$19,761,866. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2012.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.55 per \$100 valuation for real property, \$.55 per \$100 valuation for business personal property and \$.51 per \$100 valuation for motor vehicles.

NOTE 4. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

NOTE 4. RETIREMENT PLANS (Continued)

Kentucky Teachers' Retirement System (Continued)

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Franklin County Schools' total payroll for the year was \$34,414,171. For the year ended June 30, 2012, the Commonwealth contributed \$3,117,939 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2012 were \$349,546, which represents those employees covered by federal programs.

County Employees Retirement System

Plan Description - The County Employees Retirement System (CERS) administered by the Kentucky Retirement System (KRS) is a cost-sharing multiple-employer defined benefit public employee retirement system. The plan provides benefit pension plan coverage for substantially all regular non-certified, full-time employees of each county and Public Schools, and any additional eligible local agencies electing to participate in the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

CERS through KRS provides for retirement, disability, death, and survivor and health benefits of its members. The KRS annual financial report and other required disclosure information is available by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by calling (800) 928-4646.

Funding Status and Progress - The Kentucky Retirement System administers CERS based upon employer matching contributions from each county, Public Schools and eligible local agencies electing to participate in the System. The Board of Trustees of Kentucky Retirement Systems determines contribution rates each biennium. The following are CERS non-hazardous contribution rates for the year ended June 30, 2012 member is 5% of their salaries. Participation after September 1, 2008 is at the rate of 6%. The District is required to contribute 18.96 %.

The contribution requirement for CERS for the year ended June 30, 2012, was \$2,008,270 which consisted of \$1,560,790 from the District and \$447,480 from employees.

Additional information and historical trend information can be obtained from the Teachers Retirement System of Kentucky and the County Employee Retirement System of Kentucky.

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2012, the estimate for those employees with 27 or more years of service is \$409,823, in which \$129,934 is short-term and \$279,889 is long term, both recorded on the District-wide financial statements.

NOTE 6. CAPITAL ASSETS

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Life in Years</u>
Buildings and Improvements	25-50
Land Improvements	20
Technology Equipment	5
Vehicles	5-10
Audio-Visual Equipment	15
Food Service Equipment	10-12
Furniture and Fixtures	7
Rolling Stock	15
Other	10

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FRANKLIN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

	June 30, 2011	Additions	Retirements	June 30, 2012
Governmental Assets				
Cost				
Land	\$ 1,421,663	\$ 120,073	\$ -	\$ 1,541,736
Land Improvements	3,469,577	-	-	3,469,577
Buildings & Improvements (Restated)	94,328,880	4,421,247	-	98,750,127
Construction in Progress (Restated)	14,411	2,172,112	-	2,186,523
Technology Equipment (Restated)	3,810,036	355,748	(144,857)	4,020,927
Other (Restated)	1,656,698	39,729	(3,300)	1,693,127
Vehicles	6,546,426	396,055	(271,751)	6,670,730
Totals at historical cost	\$ 111,247,691	\$ 7,504,964	\$ (419,908)	\$ 118,332,747
Less: Accumulated Depreciation				
Land Improvements (Restated)	\$ 1,994,645	\$ 118,980	\$ -	\$ 2,113,625
Land	639	213	-	852
Buildings & Improvements (Restated)	25,649,175	2,279,370	-	27,928,545
Technology Equipment (Restated)	2,770,726	400,786	(142,854)	3,028,658
Other (Restated)	1,066,983	104,764	(3,300)	1,168,447
Vehicles(Restated)	4,251,360	480,630	(271,751)	4,460,239
Total accumulated depreciation	\$ 35,733,528	\$ 3,384,743	\$ (417,905)	\$ 38,700,366
NET	\$ 75,514,163	\$ 4,120,221	\$ (2,003)	\$ 79,632,381
Proprietary Assets				
Cost				
Technology Equipment	\$ 100,925	\$ -	\$ (1,220)	\$ 99,705
Vehicles	28,549	-	-	28,549
General Equipment (Restated)	1,251,409	102,439	-	1,353,848
Totals at historical cost	\$ 1,380,882	\$ 102,439	\$ (1,220)	\$ 1,482,102
Less: Accumulated Depreciation				
Technology Equipment	\$ 91,715	\$ 3,159	\$ (1,220)	\$ 93,654
Vehicles	28,549	-	-	28,549
General Equipment	806,953	78,942	-	885,895
Total accumulated depreciation	\$ 927,217	\$ 82,101	\$ (1,220)	\$ 1,008,098
NET	\$ 453,665	\$ 20,338	\$ -	\$ 474,004

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Franklin County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The maturity date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2011		2012	
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2003	8,550,000	5/1/2023	3.81%	6,135,000	-	335,000	5,800,000
2004A	8,505,000	3/1/2024	4.05%	6,145,000	-	375,000	5,770,000
2004B	16,855,000	4/1/2024	4.48%	12,320,000	-	730,000	11,590,000
2004R	2,120,000	3/1/2015	2.62%	105,000	-	25,000	80,000
2005	3,855,000	5/1/2025	4.29%	3,810,000	-	5,000	3,805,000
2005R	3,275,000	5/1/2017	3.60%	2,295,000	-	350,000	1,945,000
2007	11,220,000	5/1/2027	4.41%	10,655,000	-	155,000	10,500,000
2008R	1,690,000	7/1/2020	3.16%	1,625,000	-	135,000	1,490,000
2009R	1,810,000	1/1/2019	2.98%	1,460,000	-	165,000	1,295,000
2010	3,410,000	5/1/1930	2.65%	3,395,000	-	15,000	3,380,000
2010R	7,440,000	8/1/2021	2.63%	7,405,000	-	440,000	6,965,000
2012	10,050,000	6/1/2032	3.85%	-	10,050,000	-	10,050,000
TOTAL				\$ 55,350,000	\$10,050,000	\$ 2,730,000	\$ 62,670,000

The District has entered into “participation agreements” with the School Facilities Commission. The Kentucky General Assembly created the Commission for the purpose of assisting local school districts in meeting school construction needs. The table on page 29 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District including amount to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are shown as follows:

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NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

**FRANKLIN COUNTY SCHOOL DISTRICTS
SCHEDULE OF DEBT PAYMENTS
AS OF JUNE 30, 2012**

YEAR	FRANKLIN COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	2,076,407	2,007,645	823,593	409,699	5,317,344
2014	2,145,803	1,951,027	844,197	386,747	5,327,774
2015	2,215,189	1,879,876	874,811	357,490	5,327,366
2016	2,283,342	1,804,613	871,658	326,456	5,286,069
2017	2,365,102	1,724,588	904,898	294,730	5,289,318
2018	2,454,562	1,634,577	860,438	261,342	5,210,919
2019	2,541,356	1,548,643	888,644	229,466	5,208,109
2020	2,632,903	1,456,827	707,097	195,791	4,992,618
2021	2,732,609	1,360,487	732,391	167,471	4,992,958
2022	2,828,694	1,257,951	761,306	136,250	4,984,201
2023	2,981,576	1,164,913	793,424	103,529	5,043,442
2024	3,114,840	1,030,805	745,160	69,365	4,960,170
2025	3,259,605	888,935	130,395	37,140	4,316,075
2026	3,401,946	749,250	133,054	32,756	4,317,006
2027	3,542,364	604,799	137,636	28,174	4,312,973
2028	2,423,528	436,693	101,472	23,236	2,984,929
2029	2,504,470	345,552	105,530	19,177	2,974,729
2030	2,590,564	250,518	119,436	14,956	2,975,474
2031	1,890,826	151,422	124,174	10,178	2,176,600
2032	1,894,721	75,789	130,279	5,211	2,106,000
TOTAL	\$ 51,880,407	\$ 22,324,910	\$ 10,789,593	\$ 3,109,164	\$ 88,104,074

The issue date, original amounts of the KISTA issue and interest rates are summarized below:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2011	<u>Additions</u>	<u>Retirements</u>	2012
				<u>Outstanding Balance</u>			<u>Outstanding Balance</u>
2001	613,627	3/1/2012	3.50-4.70%	61,708		61,708	-
2003	458,992	3/1/2013	2.00-3.90%	85,097		41,705	43,392
2004	441,927	3/1/2014	1.00-3.50%	128,373		47,089	81,284
2005	718,440	3/1/2015	3.00-3.625%	287,829		74,979	212,850
2006	629,202	3/1/2016	3.30-4.00%	318,379		64,093	254,286
2006B	477,939	3/1/2017	3.50-3.875%	295,639		47,418	248,221
2008	306,699	3/1/2018	3.00-3.76%	213,898		29,101	184,797
2009	100,935	3/1/2019	2.00-3.90%	79,266		9,382	69,884
2009C	265,503	3/1/2020	2.00-3.60%	237,896		29,287	208,609
2011	81,036	3/1/2021	1.00-4.00%	81,036		8,764	72,272
2012	409,204	3/1/2022	2.0-2.625%	-	409,204	-	409,204
TOTAL				\$ 1,789,121	\$ 409,204	\$ 413,526	\$ 1,784,799

FRANKLIN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

YEAR	FRANKLIN COUNTY SCHOOL DISTRICT		TOTAL
	PRINCIPAL	INTEREST	
2013	394,405	54,896	449,301
2014	347,631	41,888	389,519
2015	295,508	30,843	326,351
2016	225,037	21,234	246,271
2017	163,296	13,954	177,250
2018	116,644	9,027	125,671
2019	84,800	5,830	90,630
2020	75,532	3,785	79,317
2021	44,202	1,907	46,109
2022	37,744	991	38,735
TOTAL	<u>\$ 1,784,799</u>	<u>\$ 184,355</u>	<u>\$ 1,969,154</u>

NOTE 8. OPERATING FUND TRANSFERS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	KETS offer of Assistance	\$ 108,094
Operating	After School Program	General	Staffing	19,269
Operating	Capital Outlay	Construction	Approved Projects	838,191
Operating	Building Fund	Construction	SFCC Offer of Assist	1,086,088
Operating	Building	Debt Service	Bond Payments	3,759,172
TOTAL TRANSFERS				<u><u>\$5,810,814</u></u>

NOTE 9. DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance/net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net assets:

General Fund	(\$428,802)
Capital Outlay Fund	(\$360,879)
Building Fund	(\$876,463)
After School Fund	(\$19,269)

NOTE 10. RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, including Workers' Compensation insurance.

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving a ninety (90) day notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The Board of Education is the defendant in lawsuits arising principally in the normal course of operations. The Board is covered by insurance against this type of liability. At this time, the administration is unable to make an evaluation regarding the likelihood of an unfavorable outcome or any possible financial implication to the Board of Education

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements.

NOTE 12. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations did not reflect this change in policy.

FRANKLIN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 13. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2012 was \$10,090,619. On-behalf payments for the current fiscal year were as follows:

General Fund	\$ 8,669,663
Food Service	182,403
After School Care	141,453
Debt Service	<u>1,097,100</u>
Total	<u><u>\$ 10,090,619</u></u>

FRANKLIN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of Franklin County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION PROGRAM

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities received for the year totaled \$160,927 with \$144,168 passed through the U.S. Department of Agriculture and \$16,759 passed through the U.S. Department of Defense.

FRANKLIN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

Section 1. Summary of Auditor's Findings

Financial statements:

Type of auditor's report issued: unqualified

Internal control over financial reporting	Yes	No
• Material weaknesses identified?		X
• Significant deficiencies identified that are not considered to be material weaknesses?	X	
• Noncompliance material to financial statements noted?		X

Federal Awards:

Internal control over major programs	Yes	No
• Material weakness identified?		X
• Significant deficiencies identified that are not considered to be material weaknesses?		X

Type of auditor's report issued on compliance for major programs: unqualified

	Yes	No
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?		X

Identification of major programs:

CFDA Numbers

10.553, 10.555, 10.559
84.367
84.410

Name of Federal Program or Cluster

Child Nutrition Cluster
Title II – High Quality Teachers and Principals
Education Jobs Fund

- Dollar threshold used to distinguish between type A and type B programs \$300,000
- Auditee qualified as low-risk auditee? Yes X No

FRANKLIN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2012

Section 2. Financial Statement Findings

Current Year Findings:

2012-01: Purchase orders (District Wide)

Statement of Condition: In our expenditure testing, the purchase orders were issued after the invoice date in 10% of samples selected.

Criteria for Condition: Purchase orders are an integral part of internal control over purchases. It makes sure that nothing is purchased without approval from the appropriate authority and hence not only the item is authorized but also the amount to be spent on the item is authorized based on the budget available for that category of the item.

Cause of the Condition: Purchase orders were issued only for the purpose of issuing the payment when it became due and not for the actual purchase.

Effect of the Condition: It is very difficult to trace if the purchase was authorized or not.

Recommendation for Correction: To comply with the district's policies as well as strengthening the internal controls over purchasing, it is recommended purchase orders be used to authorize the purchase.

Management's Response:

It has been our practice that for certain purchases needed to be made each day as needed most common in maintenance that the procedure has been that a PO log is kept and PO numbers are issued as the techs call in. A dated log is kept and the PO numbers are sequentially issued which further demonstrates compliance with this procedure. The maintenance director monitors this log and signs the purchase orders at least weekly. If during the audit test you found the purchase not on the log or the PO's not in sequence that would indicate no documented preapproval. In the future extra emphasis is being placed in training to ensure Purchasing procedures are followed including making sure the purchase documents reflect the compliance including preapproval.

Prior Year Findings: 2011-01: Fixed Assets Capitalized (CORRECTED)

Section 3. Federal Awards Findings and Questionable Costs

Current Year Findings: No matters were reported

Prior Year Findings: No matters were reported

FRANKLIN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2012

Prior Year Comments:

2011-01: Fixed Assets Capitalized (**CORRECTED**)

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Members of the Board
Franklin County School District
Frankfort, Kentucky

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Franklin County School District, Frankfort, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 13, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in accordance with Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report.

Internal Control over Financial Reporting

Management of Franklin County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Franklin County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of significant deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

(Continued)

over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2012-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

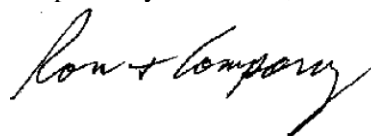
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Franklin County School District's financial statements for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation indentified in Appendix II of the Independent Auditor's Contract-State Audit Requirements.

We noted other matters that we reported to management of the Franklin County School District in a separate letter dated November 13, 2012.

This report is intended solely for the information and use of management, the members of the Franklin County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC
November 13, 2012

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
Telephone (502) 499-9088
Facsimile (502) 499-9132

Members of the Board
Franklin County School District
Frankfort, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Franklin County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Franklin County School District's major federal programs for the year ended June 30, 2012. Franklin County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Franklin County School District's management. Our responsibility is to express an opinion on Franklin County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Franklin County School District's compliance with those requirements.

In our opinion, Franklin County School District complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2012.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control over Compliance

Management of Franklin County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Franklin County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Franklin County School District's internal control over compliance.

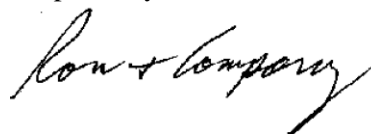
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider material weaknesses, as defined above.

Franklin County School District's responses to the findings identified in our audit, if any, are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Franklin County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of Kentucky State Committee for School District Audits, the members of the Board of Education of Franklin County School District, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
November 13, 2012

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800 Envoy Circle
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Members of the Board
Franklin County School District
Frankfort, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Franklin County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin County School District's internal control over financial reporting.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 13, 2012. This letter does not affect our report dated November 13, 2012, on the financial statements of the Franklin County School District. The conditions observed are as follows:

Current Year Findings –

2012-01: Purchase orders (District Wide)

Statement of Condition: In our expenditure testing, the purchase orders were issued after the invoice date in 10% of samples selected.

Criteria for Condition: Purchase orders are an integral part of internal control over purchases. It makes sure that nothing is purchased without approval from the appropriate authority and hence not only the item is authorized but also the amount to be spent on the item is authorized based on the budget available for that category of the item.

Cause of the Condition: Purchase orders were issued only for the purpose of issuing the payment when it became due and not for the actual purchase.

Effect of the Condition: It is very difficult to trace if the purchase was authorized or not.

*Recommendation for
Correction:* To comply with the district's policies as well as strengthening the internal controls over purchasing, it is recommended purchase orders be used to authorize the purchase.

Management's Response:

It has been our practice that for certain purchases needed to be made each day as needed most common in maintenance that the procedure has been that a PO log is kept and PO numbers are issued as the techs call in. A dated log is kept and the PO numbers are sequentially issued which further demonstrates compliance with this procedure. The maintenance director monitors this log and signs the purchase orders at least weekly. If during the audit test you found the purchase not on the log or the PO's number not in sequence that would indicate no documented preapproval. In the future extra emphasis is being placed on training to ensure Purchasing procedures are followed including making sure the purchase documents reflect the compliance including preapproval.

FRANKLIN COUNTY SCHOOL DISTRICT
RECOMMENDATION AND COMMENTS TO MANAGEMENT
JUNE 30, 2012

2012-02: Issuance of Receipts, (Redbook)

Statement of Condition: Pre-numbered receipts shall be issued on the date of collection/receipt.

Criteria for Condition: Pre-numbered receipts shall be issued any time money is received per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: It appeared receipts were not printed until date of deposit instead of date of receipt.

Effect of the Condition: Receipts are not being utilized properly or effectively.

Recommendation for Correction: Receipts should be issued at the time of receipt with amount and the name of the person the money was received from.

Management's Response:

The administration and the finance office are dedicating extensive efforts to training and monitoring all schools for compliance with the Redbook standards in FY 2013 including the revised standards issued in FY 2013. The comment relating to Issuing of Receipts will also be specifically covered with each school receiving the comment and follow up will be done by the finance officer to ensure that the issue has been resolved.

2012-03: Deposits over \$100, (Redbook)

Statement of Condition: All money collected should be deposited on a daily basis, unless under \$100. This includes ticket sales of night events (next business day).

Criteria for Condition: All money collected should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit it may be held in a secure location per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Deposits were being created with amounts over \$100, however, they were being held for a week or longer before being delivered to the bank.

Effect of the Condition: Money is not deposited in a timely manner.

Recommendation for Correction: Deposits over \$100 should be delivered to the bank on the same day as the deposit is created.

Management's Response:

The administration and the finance office are dedicating extensive efforts to training and monitoring all schools for compliance with the Redbook standards in FY 2013 including the revised standards issued in FY 2013. The comment relating to Deposits over \$100 will also be specifically covered with each school receiving the comment and follow up will be done by the finance officer to ensure that the issue has been resolved.

RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
(Continued)

2012-04: Ticket Sales (Redbook)

Statement of Condition: Ticket Sales must be turned in to the Treasurer on the next working day following the event.

Criteria for Condition: Ticket sales money should be deposited in the school safe or night depository if collected after business hours per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Ticket Sales were not deposited the next day after an event. Two separate events days apart were recorded on the same F-SA-1 report.

Effect of the Condition: Money is not deposited in a timely manner.

*Recommendation for
Correction:* Ticket sales should be deposited the day after the event.

Management's Response:

The administration and the finance office are dedicating extensive efforts to training and monitoring all schools for compliance with the Redbook standards in FY 2013 including the revised standards issued in FY 2013. The comment relating to Ticket Sales will be specifically covered with each school receiving the comment and others that have Athletic Ticket Sales including the Principal, Bookkeeper, and Athletic Director to ensure necessary procedures are in place regarding Ticket Sales and turning the funds in timely as required by the Redbook. Follow up will be done by the finance officer to ensure that the issue has been resolved.

2012-05: Handling Cash, (Redbook)

Statement of Condition: All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection.

Criteria for Condition: All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: It appeared teachers/sponsors held money/checks for a length of time before submitting them to the school treasurer.

Effect of the Condition: Money is not deposited in a timely manner.

*Recommendation for
Correction:* Stress to teachers/sponsors that all money should be delivered to school treasurer on date of collection.

Management's Response:

The administration and the finance office are dedicating extensive efforts to training and monitoring all schools for compliance with the Redbook standards in FY 2013 including the revised standards issued in FY 2013. The comment relating to All Money collected by the teacher/sponsor should give all funds collected each day to the school treasurer will also be specifically covered with each school. Principal will convey the importance of this matter to the teachers/sponsors. Follow up will be done by the finance officer to ensure that the issue has been resolved.

RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
(Continued)

2012-06: Sales Tax, (Redbook)

Statement of Condition: Sales tax was included as part of a reimbursement to an employee for supplies.

Criteria for Condition: Employees purchasing items for the school cannot be reimbursed for sales tax per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Employee requested reimbursement for purchase of supplies and was issued a check that also included the sales tax on that purchase.

Effect of the Condition: Schools are exempt from the payment of sales taxes excluding tax on meals and hotel expenses for employees and students.

Recommendation for

Correction: Reimbursing sales tax to employees for supplies purchased is prohibited.

Management's Response:

Extra emphasis is being placed to virtually eliminate employee reimbursements except for those authorized in our travel policy. Also, extra emphasis is being given to training related to purchasing which will result in the increased use of bid vendors. These steps will also result in less sales taxes being erroneously being charged. Additionally, staff that actually process payments will have emphasized to them not to pay sales taxes on any invoice except for meals and hotels.

2012-07: Multiple Receipt Forms, (Redbook)

Statement of Condition: Multiple receipt forms with student's signature were used when collecting money.

Criteria for Condition: Teachers/sponsors/students shall use Multiple Receipt Forms or pre-numbered receipts when collecting money per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Multiple Receipt Forms were missing when submitted to school treasurer.

Effect of the Condition: Limited documentation of money received from students/parents/teachers.

Recommendation for

Correction: Multiple receipt forms with student's signature should be utilized when teachers/sponsors are collecting money.

Management's Response:

The administration and the finance office are dedicating extensive efforts to training and monitoring all schools for compliance with the Redbook standards in FY 2013 including the revised standards issued in FY 2013. The comment relating to teacher/sponsors properly using Multiple Receipt Forms or pre-numbered receipts will also be specifically covered with each school. The Principal will convey the importance of this matter to the teachers/sponsors. Follow up will be done by the finance officer to ensure that the issue has been resolved.

RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
(Continued)

2012-08: Use of Purchase Orders, (Redbook)

Statement of Condition: Purchase orders were not used for every purchase.

Criteria for Condition: A Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Purchase orders were not utilized for every purchase.

Effect of the Condition: Purchases being made without proper prior approval.

Recommendation for

Correction: A purchase order shall be prepared and approved before all purchases.

Management's Response:

Extra emphasis is being placed to virtually eliminate employee reimbursements except for those authorized in our travel policy. Also, extra emphasis is being placed on the training related to purchasing which will result in increased use of bid vendors. Reimbursements from the activity funds will be completely prohibited as required by the revised Redbook. These steps which also include training the schools on the importance of documenting the preapproval of each purchase in the pay document will resolve this matter. The Finance officer will also follow up to ensure that each school receiving this comment has resolved the matter.

2012-09: Purchase of Teacher Gifts (Redbook)

Statement of Condition: A purchase of Dairy Queen Blizzards for teachers was taken out the general activity fund.

Criteria for Condition: Only staff generated funds, including proceeds from snack machines in staff areas, may be used for staff gifts, dinners, etc... per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: A purchase of Dairy Queen Blizzards for teachers was taken out of the general activity fund.

Effect of the Condition: Student generated money was improperly used for staff treats.

Recommendation for

Correction: Teacher treats and gifts should only be purchased out of staff generated funds.

Management's Response

In the districts training efforts the comment of using activity funds for teacher gifts will be resolved. All other staff gifts, dinners etc.. will be taken from staff generated funds kept in a separate account in the activity fund. The Finance officer will also follow up to ensure that each school receiving this comment has resolved the matter.

RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
(Continued)

Prior year comments-

Prior year comments for the District Central Accounting:

2011-01: Fixed Assets Capitalized

The prior year comment for the individual school:

2011-02: Fixed Assets, (Redbook)- CORRECTED

2011-03: Issuance of Receipts, (Redbook)- REPEAT

2011-04: Deposits over \$100 (Redbook)- REPEAT

2011-05: Ticket Sales (Redbook)- REPEAT

2011-06: Fund Raiser Worksheets (Redbook)- CORRECTED

2011-07: Handling Cash (Redbook)- REPEAT

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
November 13, 2012